

# Indian Bank

## Accumulate



### Capital Strength Continues

- Indian bank reported NII and PPop growth of 17% and 23% YoY respectively on an amalgamated basis, driven by lower slippages, higher treasury gains and lower other opex.
- Moratorium levels for TLs at 20% as of July-end based on one unpaid monthly instalment looks superior compared with peers. Based on two unpaid installments, the ratio stands at 7%.
- Despite the 160 bps erosion in CET1 ratio owing to the amalgamation with Allahabad bank, bank's CET1 ratio at 10.3% as of 1QFY20 remains the best amongst PSBs. With low capital consumption (RWA/assets at 52%), the bank is not in need of any urgent capital raise in our view.
- The bank's healthy capital usage has historically aided its performance. Additionally, PCR at 68% is comforting and capital erosion has been less relative to other recent PSB mergers. Nonetheless, modest operating metrics (PPoP/assets at 1.8%) and low provision buffers (0.2% of advances) could limit RoAs.
- We value the bank at 0.6x P/ABV, implying a TP of Rs74 against a RoA/RoE of 0.5%/9% for FY22E with an ACCUMULATE recommendation. The stock currently trades at 0.5x FY22E P/ABV.**

### Encouraging asset quality trends; provision cover remains low

Asset quality trends were encouraging with superior moratorium levels relative to peers, sharp decline in SMA-2 levels to 0.6% against over 2% for the past few quarters (merged as well as standalone), and post-merger PCR higher by 12% to 68% (standalone PCR at 56% as of 4QFY20). Gross NPAs declined by 50 bps QoQ to 10.9% on a merged basis. Nonetheless, additional standard provision cover remains low at 0.2% of loans. We build in slippages and credit costs of 5%/300 bps for FY21E.

### CASA gains from merger; smooth integration remains key

Indian Bank benefitted from strong CASA base of Allahabad bank, with CASA ratio for the amalgamated entity at 42% against 35% for standalone Indian bank as of 4QFY20. Asset quality however weakened with 10.9% GNPA for the amalgamated entity vs 6.9% for standalone Indian bank. Deterioration in net NPA ratio was however lower at 60 bps to 3.76%. Smooth HR and IT integration remain key to sustainable earnings. HR integration has been better than expected as per management while IT integration should be completed by FY21 end.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21*	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net interest income	38,743	17,854	117.0	20,028	93.4
Other income	13,268	6,945	91.0	8,416	57.6
Total Net Income	52,010	24,800	109.7	28,444	82.9
Operating expenses	24,477	11,058	121.4	11,411	114.5
Pre-provision profits	27,533	13,742	100.4	17,033	61.7
Provisions	21,391	7,948	169.1	18,919	13.1
Tax expense	2,450	2,140	14.5	291	740.9
Reported Net Profit	3,693	3,654	1.1	(2,177)	(269.6)
			(bps)		(bps)
Advances growth YoY (%)	91.2	12.1	7900	9.2	8200
NIM (%)	2.8	2.9	(8)	2.9	(13)
RoA (%)	0.3	0.5	(19)	(0.3)	63
RoE (%)	5.1	7.4	(233)	(4.2)	928
Gross NPA (%)	10.9	7.3	357	6.9	403

\* Prior period numbers not comparable due to amalgamation

CMP	Rs 62
Target / Upside	Rs 74 / 19%
BSE Sensex	37,898
NSE Nifty	11,178

### Scrip Details

Equity / FV	Rs 6,088mn / Rs 10
Market Cap	Rs 70bn
	US\$ 936mn
52-week High/Low	Rs 203/Rs 42
Avg. Volume (no)	38,42,590
NSE Symbol	INDIANB
Bloomberg Code	INBK IN

### Shareholding Pattern Jun'20(%)

Promoters	88.1
MF/Banks/FIs	0.0
FIs	0.0
Public / Others	11.9

### Valuation (x)

	FY20A	FY21E*	FY22E*
P/E	5.0	257.0	2.2
P/ABV	0.3	0.6	0.5
ROAA	0.3	0.0	0.5
ROAE	3.6	0.1	9.3

### Estimates (Rs mn)

	FY20A	FY21E*	FY22E*
NII	76,064	1,41,118	1,48,798
PPOP	64,980	1,06,493	1,08,469
PAT	7,534	273	31,774
Adj BV	212.2	101.3	131.0

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### Other Important Highlights:

- The bank fully provided against two HFC NPAs (aggregate exposure of Rs13.5bn) during this quarter. These provisions were absorbed through reserves in 4QFY20.
- Management has guided for recoveries of Rs45 bn during FY21 including Rs20 bn from NCLT accounts (includes Bhushan Power), Rs10bn from other corporate accounts and rest from RAM portfolio. Out of this, Rs26bn will be reduced from GNPA, rest will come as recoveries from written off pool.
- Exposure to COVID impacted sectors like airline, hospitality, tourism, exposure is close to nil.
- Expect very limited restructurings. Even from watch-list accounts, don't expect many to get restructured.
- Loan growth at 6% YoY for the merged entity was led by both corporate (5% YoY) and RAM (5% YoY), with retail segment growing at 11% YoY.
- Indian bank moved to the new tax regime during 3QFY20, tax rates going forward should be lower. Indian and SBI are the only two PSBs which have moved to the lower tax regime.

**Risks to the View:** Higher-than-estimated credit loss from corporate and retail segments, integration related challenges, higher than anticipated stress on macro-economy from COVID-19

### Quarterly Financials - Merged

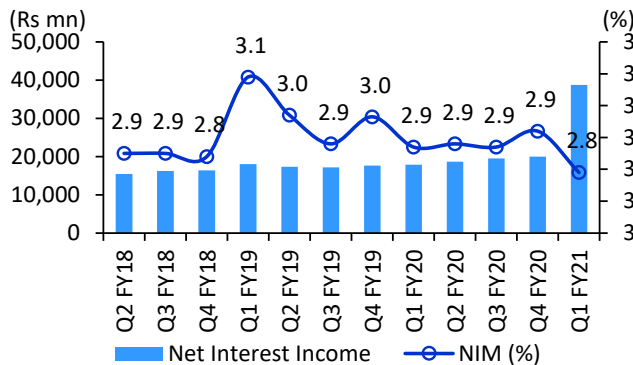
(Rs mn)	Q1FY21	Q1FY20	% yoy / bps	Q4FY20	% qoq / bps
Interest Inc.	1,01,199	94,607	7.0	97,570	3.7
Interest Expenses	62,457	61,452	1.6	64,470	(3.1)
<b>Net Interest Income</b>	<b>38,743</b>	<b>33,155</b>	<b>16.9</b>	<b>33,100</b>	<b>17.0</b>
Other Income - Total	13,268	11,189	18.6	17,280	(23.2)
<b>Net Operating Revenue</b>	<b>52,010</b>	<b>44,345</b>	<b>17.3</b>	<b>50,380</b>	<b>3.2</b>
Employee Expenses	16,540	13,316	24.2	15,340	7.8
Other Opex	7,937	8,691	(8.7)	11,030	(28.0)
<b>Total Opex</b>	<b>24,477</b>	<b>22,007</b>	<b>11.2</b>	<b>26,370</b>	<b>(7.2)</b>
<i>Cost to Income Ratio (%)</i>	<i>47.1</i>	<i>49.6</i>	<i>(257)</i>	<i>52.3</i>	<i>(528)</i>
<b>Pre Provision Profits</b>	<b>27,533</b>	<b>22,338</b>	<b>23.3</b>	<b>24,010</b>	<b>14.7</b>
<b>PPP ex Except. Items</b>	<b>27,533</b>	<b>22,342</b>	<b>23.2</b>	<b>24,013</b>	<b>14.7</b>
Provisions & Contingencies - Total	21,391	18,036	18.6	31,860	(32.9)
<b>Profit Before Tax</b>	<b>6,142</b>	<b>4,305</b>	<b>42.7</b>	<b>-7,847</b>	<b>(178.3)</b>
Tax	2,450	-632	(487.4)	8,570	(71.4)
<i>Effective Tax Rate (%)</i>	<i>39.9</i>	<i>-14.7</i>	<i>5,457</i>	<i>-109.2</i>	<i>14,910</i>

Source: Company, DART

Asset Quality (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	% qoq / bps	% yoy / bps
Gross NPA	4,22,147	4,54,483	4,60,122	4,19,980	3,99,650	(4.8)	(5.3)
<i>Gross NPAs Ratio (%)</i>	<i>12.1</i>	<i>12.6</i>	<i>12.7</i>	<i>11.4</i>	<i>10.9</i>	<i>(49)</i>	<i>(119)</i>
<i>PCR - Calculated (%)</i>	<i>64.3</i>	<i>66.7</i>	<i>69.7</i>	<i>66.0</i>	<i>68.1</i>	<i>207</i>	<i>375</i>
Net NPA	1,50,541	1,51,156	1,39,369	1,42,720	1,27,547	(10.6)	(15.3)
<i>Net NPAs Ratio (%)</i>	<i>4.7</i>	<i>4.6</i>	<i>4.2</i>	<i>4.2</i>	<i>3.8</i>	<i>(43)</i>	<i>(92)</i>
Advances	32,33,157	32,89,452	33,04,559	34,10,741	33,94,815	(0.5)	5.0
Deposits	45,45,330	46,97,973	48,12,780	48,85,500	48,91,086	0.1	7.6

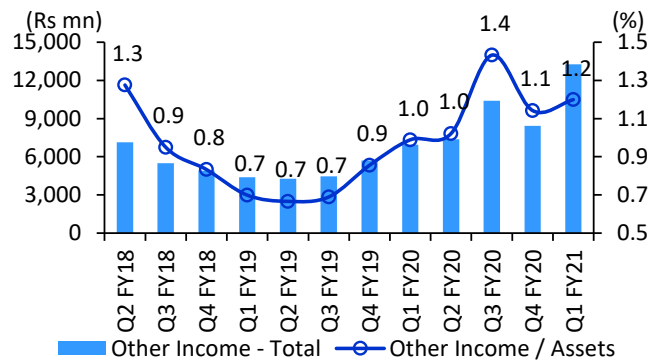
Source: Company, DART

**Exhibit 1: Margins were lower sequentially despite muted slippages**



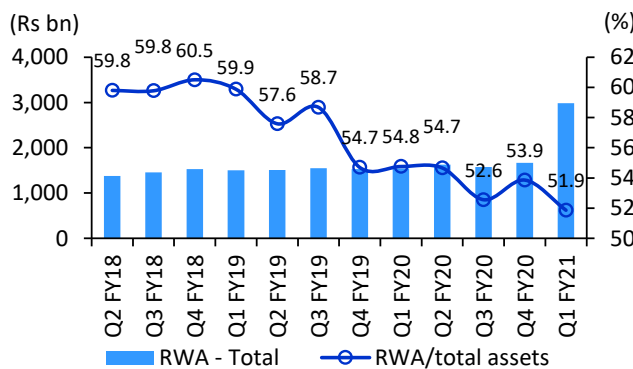
Source: Company, DART

**Exhibit 2: Elevated treasury gains aid other income despite muted fee lines**



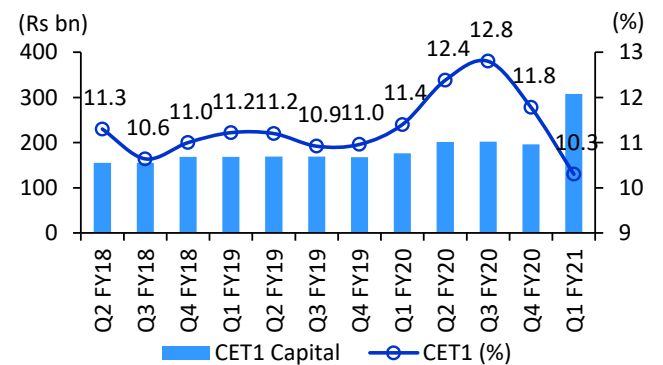
Source: Company, DART

**Exhibit 3: Improving RWA intensity helping capital position**



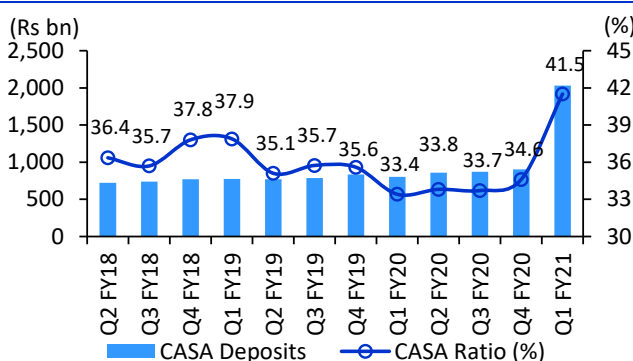
Source: Company, DART

**Exhibit 4: Prior to amalgamation proposal, the bank has not had any capital infusion over several years**



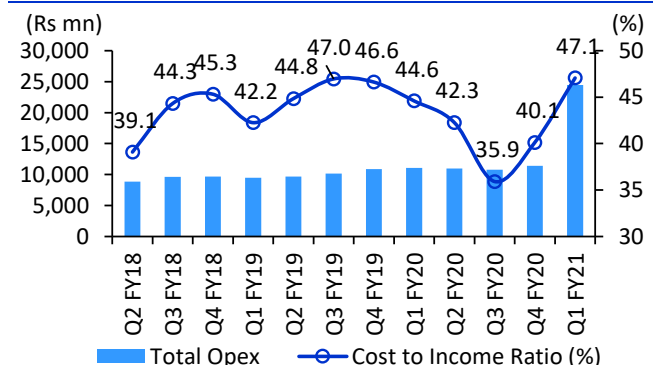
Source: Company, DART

**Exhibit 5: CASA gains led by merger with Allahabad bank**



Source: Company, DART

**Exhibit 6: Opex synergies yet to accrue**



Source: Company, DART

## Quarterly Financials

Profit and Loss (Rs mn)	Q1FY21*	Q1FY20	% yoy / bps	Q4 FY20	% qoq / bps
<b>Interest Inc.</b>	<b>1,01,199</b>	<b>51,376</b>	<b>97.0</b>	<b>54,927</b>	<b>84.2</b>
<i>Yield on Advances (%)</i>	7.6	8.4	(81)	8.4	(80)
<i>Yield on Domestic Invt. (%)</i>	6.7	8.3	(165)	7.7	(103)
<b>Interest Expenses</b>	<b>62,457</b>	<b>33,521</b>	<b>86.3</b>	<b>34,900</b>	<b>79.0</b>
<i>Cost of Dep. (%)</i>	4.8	5.4	(57)	5.2	(38)
<b>Net Interest Income</b>	<b>38,743</b>	<b>17,854</b>	<b>117.0</b>	<b>20,028</b>	<b>93.4</b>
<i>NII to Net Operative Income</i>	74.5	72.0	250	70.4	408
<i>NIM (%)</i>	2.79	2.87	(8)	2.92	(13)
<i>Dom. NIM (%)</i>	2.8	2.9	(2)	3.0	(13)
<b>Adjusted NII</b>	<b>38,743</b>	<b>17,811</b>	<b>117.5</b>	<b>19,993</b>	<b>93.8</b>
<b>Core Fee Income</b>	<b>4,450</b>	<b>2,806</b>	<b>58.6</b>	<b>4,270</b>	<b>4.2</b>
Exchnage Profit	470	531	(11.4)	480	(2.1)
Profit on Sale / Rev of Investments	6,320	2,023	212.4	1,880	236.2
Recovery from W/O Debts	240	333	(28.0)	1,440	(83.3)
Others	1,788	1,252	42.7	350	410.7
<b>Other Income - Total</b>	<b>13,268</b>	<b>6,945</b>	<b>91.0</b>	<b>8,416</b>	<b>57.6</b>
<i>Other Inc to Net Oper. Income (%)</i>	25.5	28.0	(250)	29.6	(408)
<b>Net Operating Revenue</b>	<b>52,010</b>	<b>24,800</b>	<b>109.7</b>	<b>28,444</b>	<b>82.9</b>
Employee Expenses	16,540	6,701	146.8	6,241	165.0
<i>Empl. Cost/Oper. Exps. (%)</i>	31.8	27.0	478	21.9	986
Other Opex	7,937	4,357	82.2	5,170	53.5
<i>Other Opex/ Assets (%)</i>	0.2	0.2	2	0.2	0
<b>Total Opex</b>	<b>24,477</b>	<b>11,058</b>	<b>121.4</b>	<b>11,411</b>	<b>114.5</b>
<i>Cost to Income Ratio (%)</i>	47.1	44.6	247	40.1	694
<b>Pre Provision Profits</b>	<b>27,533</b>	<b>13,742</b>	<b>100.4</b>	<b>17,033</b>	<b>61.7</b>
Provision towards NPAs	18,300	4,822	279.5	14,304	27.9
Provision for investments	(400)	2,930	(113.7)	890	(144.9)
Provision for Standard Advances	1,750	(135)	(1,397.3)	1,220	43.4
Other	1,750	331	429.3	2,510	(30.3)
<b>Provisions &amp; Contingencies - Total</b>	<b>21,391</b>	<b>7,948</b>	<b>169.1</b>	<b>18,919</b>	<b>13.1</b>
<i>NPA Provisions as % PPP</i>	77.7	57.8	1,985	111.1	(3,338)
<b>Profit Before Tax</b>	<b>6,142</b>	<b>5,794</b>	<b>6.0</b>	<b>(1,886)</b>	<b>(425.7)</b>
<b>Tax</b>	<b>2,450</b>	<b>2,140</b>	<b>14.5</b>	<b>291</b>	<b>740.9</b>
<i>Effective Tax Rate (%)</i>	39.9	36.9	294	(15.4)	5,532.7
<b>Reported Profits</b>	<b>3,693</b>	<b>3,654</b>	<b>1.1</b>	<b>(2,177)</b>	<b>(269.6)</b>
<i>RoA (%)</i>	0.3	0.5	(27)	(0.3)	53.0
Basic EPS (Rs)	3.3	7.5	(56.6)	(3.6)	(191.3)

Source: Company, DART; \*Q1FY21 numbers not comparable to prior periods due to amalgamation

Balance Sheet Analysis (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21*	QoQ % / bps	YoY % / bps
Net Worth	2,00,420	2,04,104	2,32,240	2,20,893	3,60,532	63.2	79.9
CET1 (%)	11.4	12.4	12.8	11.8	10.3	(148)	(110)
Tier 1 (%)	11.7	12.7	13.1	12.1	10.5	(161)	(125)
Total CAR (%)	13.6	14.5	15.0	14.1	13.5	(67)	(17)
RWA - Total	15,43,700	16,27,180	15,77,380	16,66,840	24,30,100	45.8	57.4
Advances	17,75,810	18,68,229	18,52,460	19,78,870	33,94,815	71.6	91.2
Investments	6,76,370	7,55,003	7,68,420	8,12,417	16,15,349	98.8	138.8
Total Assets	28,19,150	29,76,621	30,01,100	30,94,682	57,57,663	86.1	104.2
RoA (%)	0.52	0.50	0.33	(0.28)	0.25	53	(27)
Deposits	24,14,570	25,31,720	25,76,210	26,02,259	48,91,086	88.0	102.6
Saving Deposit	6,84,810	7,18,640	7,33,200	7,66,090	17,89,540	133.6	161.3
Current Deposit	1,15,950	1,32,440	1,36,230	1,35,490	2,41,520	78.3	108.3
CASA Deposits	8,00,760	8,55,970	8,69,430	9,01,580	20,31,060	125.3	153.6
CASA Ratio (%)	33.4	33.8	33.7	34.6	41.5	690	810

Source: Company, DART; \*Q1FY21 numbers not comparable to prior periods due to amalgamation

Asset Quality (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21*	QoQ % / bps	YoY % / bps
Gross Advances	18,43,276	19,41,769	19,25,323	20,59,802	36,66,516	78.0	98.9
Gross NPA	1,35,112	1,39,807	1,38,623	1,41,508	3,99,650	182.4	195.8
Gross NPA Ratio (%)	7.33	7.20	7.20	6.87	10.90	403	357
PCR - Calculated (%)	49.5	52.7	53.2	56.3	68.1	1,179	1,859
PCR - Inc. Tech w/o (%)	66.34	68.06	70.84	73.05	80.50	745	1,416
Net Advances	17,77,145	18,68,213	18,53,596	19,82,127	33,92,215	71.1	90.9
Net NPA	68,242	66,135	64,876	61,842	1,27,547	106.2	86.9
Net NPAs Ratio (%)	3.84	3.54	3.50	3.12	3.76	64	(8)

Source: Company, DART; \*Q1FY21 numbers not comparable to prior periods due to amalgamation

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## Conference Call Highlights

### Asset quality

- The bank fully provided against two HFC NPAs (aggregate exposure of Rs13.5bn) during this quarter. This provisions were absorbed through reserves in 4QFY20.
- Management has guided for recoveries of Rs45 bn during FY21 including Rs20 bn from NCLT accounts (includes Bhushan Power), Rs10bn from other corporate accounts and rest from RAM portfolio. Out of this, Rs26bn will be reduced from GNPA, rest will come as recoveries from written off pool.
- Reported moratorium levels were at 20% as of July-20, where one out of 4 instalments (Mar-June) remained unpaid.
- Exposure to COVID impacted sectors like airline, hospitality, tourism, exposure is close to nil
- Corporate rating composition includes NPA accounts. Rating composition includes all accounts >10 cr, and many MSME accounts with lower ratings have partly contributed to higher share of BBB and below book at 36% including unrated loans.

### Amalgamation with Allahabad Bank

- IT integration expected to be completed in current financial year.
- Merger related synergies would have been much higher if not for COVID. HR integration has been better than expected.

### Guidance and Other highlights

- Target for a NIM of 3% for FY21
- Expect ageing related provisions of Rs10bn per quarter in FY21.
- Expect very limited restructurings. Even from watch-list accounts, don't expect a lot of them to get restructured.
- Regarding wage hike related provisions (Rs4bn), 60% have made and the remaining 40% or Rs1.5bn will be made in Q2.



**Profit and Loss Account (Rs Mn)**

Particulars	FY19A	FY20A	FY21E*	FY22E*
Interest Income	1,91,848	2,14,050	4,03,100	4,25,700
Interest expenses	1,21,667	1,37,986	2,61,982	2,76,903
<b>Net interest income</b>	<b>70,181</b>	<b>76,064</b>	<b>1,41,118</b>	<b>1,48,798</b>
Other incomes	18,829	33,125	59,558	59,277
Total expenses	40,204	44,208	94,183	99,606
- Employee cost	22,229	24,730	57,074	58,786
- Other	17,975	19,479	37,109	40,820
<b>Pre provisioning profit</b>	<b>48,806</b>	<b>64,980</b>	<b>1,06,493</b>	<b>1,08,469</b>
Provisions	45,964	51,253	1,06,114	66,104
Profit before taxes	2,842	13,727	379	42,365
Tax provision	(377)	6,194	106	10,591
Profit after tax	3,219	7,534	273	31,774
<b>Adjusted profit</b>	<b>3,219</b>	<b>7,534</b>	<b>273</b>	<b>31,774</b>

**Balance Sheet (Rs Mn)**

Particulars	FY19A	FY20A	FY21E*	FY22E*
<b>Sources of Funds</b>				
Equity Capital	4,803	6,088	11,294	11,294
Reserves & Surplus	1,89,084	2,14,805	3,23,659	3,38,962
Minority Interest	0	0	0	0
Net worth	1,93,887	2,20,893	3,34,952	3,50,255
Borrowings	1,21,375	2,08,303	2,76,227	2,95,076
- Deposits	24,20,759	26,02,259	52,48,320	56,06,453
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	64,631	63,227	1,67,830	1,90,937
<b>Total Liabilities</b>	<b>28,00,653</b>	<b>30,94,682</b>	<b>60,27,330</b>	<b>64,42,721</b>
<b>Application of Funds</b>				
Cash and balances with RBI	2,00,204	1,39,247	4,24,699	4,55,052
Investments	6,49,922	8,12,417	17,27,459	18,20,367
Advances	18,12,619	19,78,870	35,81,279	38,67,781
Fixed assets	39,614	38,957	72,280	71,260
Other current assets, loans and advances	98,294	1,25,190	2,21,613	2,28,262
<b>Total Assets</b>	<b>28,00,653</b>	<b>30,94,682</b>	<b>60,27,330</b>	<b>64,42,721</b>

E – Estimates, \*Prior period numbers not comparable due to amalgamation

### Important Ratios

Particulars	FY19A	FY20A	FY21E*	FY22E*
<b>(A) Margins (%)</b>				
Yield on advances	8.3	8.4	10.2	8.1
Yields on interest earning assets	7.6	7.7	9.3	7.2
Yield on investments	7.4	7.2	8.8	6.6
Costs of funds	5.0	5.2	6.3	4.8
Cost of deposits	5.0	5.2	6.4	4.9
NIMs	2.8	2.7	3.3	2.5
<b>(B) Asset quality and capital ratios (%)</b>				
GNPA	7.1	6.9	13.3	11.7
NNPA	3.8	3.1	0.0	4.0
PCR	49.1	56.3	66.0	67.0
Slippages	4.1	2.9	5.0	3.0
NNPA to NW	41.7	32.4	59.0	50.8
CASA	35.7	35.7	41.0	41.0
CAR	13.2	14.1	10.2	10.2
Tier 1	11.3	12.1	9.0	9.1
Credit - Deposit	74.9	76.0	68.2	69.0
<b>(C) Dupont as a percentage of average assets</b>				
Interest income	7.2	7.3	8.8	6.8
Interest expenses	4.6	4.7	5.7	4.4
Net interest income	2.6	2.6	3.1	2.4
Non interest Income	0.7	1.1	1.3	1.0
Total expenses	1.5	1.5	2.1	1.6
- cost to income	45.2	40.5	46.9	47.9
Provisions	1.7	1.7	2.3	1.1
Tax	0.0	0.2	0.0	0.2
RoA	0.1	0.3	0.0	0.5
Leverage	17.2	16.2	21.6	21.4
RoE	1.7	3.6	0.1	9.3
RoRwa	0.2	0.5	0.0	0.9
<b>(D) Measures of Investments</b>				
EPS - adjusted	6.7	12.4	0.2	28.1
BV	339.2	313.8	247.3	266.4
ABV	186.9	212.2	101.3	131.0
<b>(E) Growth Ratios (%)</b>				
Net interest income	12.0	8.4	85.5	5.4
PPoP	(2.4)	33.1	63.9	1.9
Adj PAT	(74.4)	134.0	(96.4)	11541.8
Advances	15.8	9.2	81.0	8.0
Total borrowings	(38.6)	71.6	32.6	6.8
Total assets	10.8	10.5	94.8	6.9
<b>(F) Valuation Ratios</b>				
Market Cap (Rs. mn)	70,134	70,134	70,134	70,134
CMP (Rs.)	62	62	62	62
P/E (x)	9.3	5.0	257.0	2.2
P/BV (x)	0.2	0.2	0.3	0.2
P/ABV (x)	0.3	0.3	0.6	0.5

E – Estimates, \*Prior period numbers not comparable due to amalgamation



**DART RATING MATRIX**

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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